Northern Solar (NORTHERN MK)

Maiden Utility-Scale Project To Spur Near-Term Growth

	BUY (Maintained)
Share Price	RM0.625
Target Price	RM1.00
Upside	60.0%

Highlights

- Northern Solar has secured its maiden RM120m utility-scale EPCC contract, likely for the LSS5 programme. This bolsters earnings visibility over FY27-28.
- The company commands a healthy orderbook of RM204m, with recurring orderbook replenishment estimated at RM80m-100m. We project net profit growth of 43% for FY27 as ATAP and BESS will pivot Northern Solar's orderbook to a blue-sky estimate of RM300m.
- Maintain BUY with a target price of RM1.00. We like Northern Solar as a niche player within the RE space – managing power efficiency for small-to-medium sized C&I customers (<1MW). Near-term prospects appear bright as the company is set to leverage ATAP for its C&I customers and benefit from BESS solutions to help existing customers shave MD charges.

Analysis

- **Maiden utility-scale solar ECC win…** Northern Solar recently secured its maiden utility-scale engineering, construction and commissioning (ECC) contract valued at RM120m. We believe the contract pertains to the LSS5 programme as commissioning is slated for end-27. Importantly, given uncertainties surrounding solar photovoltaic (PV) prices and procurement, the solar PV will be sourced by the asset owner. This means the RM120m contract value entails construction and grid interconnection works. We believe this contract structure (omitting solar PV procurement) will become the prevailing model for future utility-scale projects (LSS5+ and LSS6).
- **… will help double revenue growth in FY27.** The contract win is set to double the company's top-line in FY27. We estimate that about 70% of the RM120m contract value will be recognised in FY27, and in the absence of solar PV inflating top-line, net margin from construction works is likely to mirror sector's average 7-9% range. This underpins strong earnings visibility over FY27-28 for Norther Solar.
- **Northern Solar commands strong orderbook of RM204m,** predominantly driven by the above utility-scale contract (59%), with the remainder comprising rooftop solar PV projects across the commercial and industrial (C&I) (36%) and residential (5%) segments. Project delivery timeline averages 5-7 months for C&I and residential projects, with recurring orderbook replenishment estimated at RM80m-100m. The company aims to achieve 100MW of solar installation in the coming 12 months with its battery energy storage system (BESS) pipeline potentially adding a further 10% to its burgeoning orderbook size.

Key Financials

Year to 31 Mar (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	78.0	84.9	115.7	224.2	402.2
EBITDA	13.7	18.7	24.8	35.4	59.4
Operating profit	13.3	17.8	24.0	34.1	57.2
Net profit (rep./act.)	10.1	11.4	15.7	22.5	37.8
Net profit (adj.)	10.1	13.9	15.7	22.5	37.8
EPS	3.1	3.5	4.0	5.7	9.6
PE	20.4	17.8	15.7	11.0	6.5
P/B	9.9	3.7	3.0	2.3	1.7
EV/EBITDA	14.5	11.0	7.5	5.0	2.6
Dividend yield	-	-	-	-	-
Net margin	12.9	16.4	13.6	10.0	9.4
Net debt/(cash) to equity	(30.7)	(62.0)	(72.2)	(66.4)	(63.9)
Interest cover	24.9	22.4	50.8	71.0	96.3
ROE	48.7	20.6	18.8	21.2	26.3
Consensus net profit	-	-	-	-	-
UOBKH/Consensus (x)	-	-	-	-	-

Source: Northern Solar, Bloomberg, UOB Kay Hian

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Stock Data

GICS Sector	Industrials
Bloomberg ticker	NORTHERN MK
Shares issued (m)	395.6
Market cap (RMm)	247.3
Market cap (US$m)	61.6
3-mth avg daily t'over (US$m)	0.1

Price Performance (%)

52-week high/low				RM0.81/RM0.445
1mth	3mth	6mth	1yr	YTD
33.0	(1.6)	(19.9)	(7.4)	(1.6)

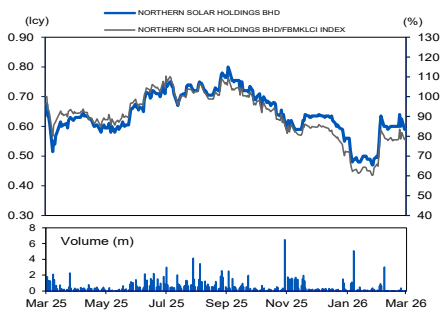
Major Shareholders %

Lew Shoong Kai	29.8
Chew Win Hoe	29.8
Amanah Mutual Bhd	1.2

Balance Sheet Metrics %

FY26F NAV/Share (RM)	0.21
FY26F Net Debt/Share (RM)	0.15

Price Chart



Source: Bloomberg

Company Description

Northern Solar operates as an investment holding company. Through its subsidiaries, it specialises in the engineering, procurement, construction, and commissioning of solar PV systems and generation of renewable energy, as well as the operation and maintenance of solar PV equipment and systems. Northern Solar serves customers in Malaysia.

- **Supply chain resilience remains intact.** The company is confident in managing any cost impact resulting from the Iran conflict. This is primarily underpinned by: a) its sufficient solar module inventory for existing and incoming projects until Jun 26; b) procurement of locally-sourced construction materials, shielded from any logistical issues; and c) strategic cost pass-through contract structure to mitigate adverse solar module price movements.

Valuation/Recommendation

- **Maintain BUY with target price of RM1.00.** Our target price is pegged to 11x FY28 EPS (-1SD from mean PE). Northern Solar is currently trading at an attractive valuation of 11x FY27F PE with a three-year earnings CAGR of 40% over FY25-28 and a blue-sky fair value of RM1.35 (mean PE). Key re-rating catalysts include: a) award of utility-scale EPCC contracts under LSS5, LSS5+ and LSS6; b) venture into utility-scale asset ownership under CRESS and LSS6; and c) reinstatement of Shariah status after the biannual Shariah compliance review in May 26; and d) transfer to Main Board listing by 2H26.

Earnings Revision/Risk

- No changes to earnings.
- **The stock offers a strong three-year revenue and earnings CAGR of 68% and 40% respectively over FY25-28.** Key drivers are: a) elevated orderbook potential of small-to-medium sized C&I customers with the rollout of the solar accelerated transition action programme (Solar ATAP), b) potential large-scale self-consumption (SELCO) contract wins, and c) untapped bite size standalone BESS solutions for existing customers.

Share Price Catalyst/Risk

- **Solar ATAP to spur C&I project momentum.** Solar ATAP (introduced in Jan 26) serves as a catalyst for Northern Solar's C&I segment growth, reflecting guidelines largely consistent with its predecessor, the Net Energy Metering NOVA programme (which expired in Jun 25). Solar ATAP can better accommodate C&I consumers that are installing solar PV systems below 1MWac, whereas installations exceeding this threshold would be directed to adopt the SELCO scheme instead (which requires standby battery obligations). We anticipate C&I solar PV EPCC orders (for both ATAP and SELCO) gaining momentum in 2H26, with positive revenue uplift amid clearer customer preferences in selecting the most optimal clean adoption scheme.
- **Standalone BESS solution: A key growth driver.** We believe this will be the company's key growth driver over the next three years, with annual revenue contribution expected to reach up to RM100m in FY27 alone, contributing gross margins that are comparable with that of C&I solar PV EPCC projects (around 30%). Northern Solar is exploring BESS opportunities with its existing C&I customer base (~2,000 customers), while maintaining a strategic long-term focus on expanding its customer footprint across Peninsular Malaysia.

Environmental, Social, Governance (ESG)

Environmental

- Northern Solar installed solar PV systems countrywide with a cumulative capacity of 135MWp for its customers in FY25.

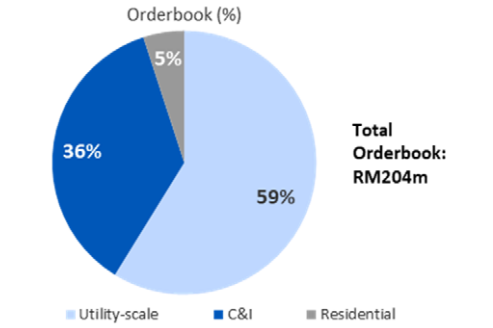
Social

- In FY25, the group allocated RM12,000 aimed at improving the welfare of surrounding communities through three beneficiary organisations.

Governance

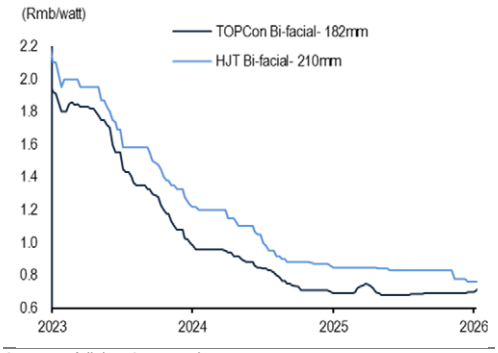
- The Board of Directors consists of four independent non-executive directors and two non-independent executive directors. Women comprise of 50% of the Board.

Current Orderbook



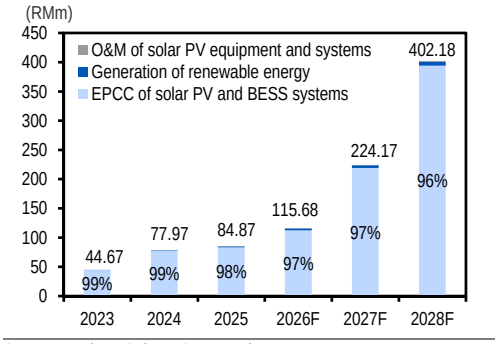
Source: Northern Solar, UOB Kay Hian

Solar Module Prices



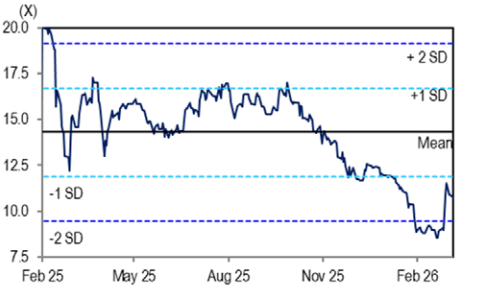
Source: Infolink, UOB Kay Hian

Quarterly Revenue Breakdown



Source: Northern Solar, UOB Kay Hian

PE Band



Source: Bloomberg, UOB Kay Hian

Profit & Loss

Year to 31 Mar (RMm)	2025	2026F	2027F	2028F
Net turnover	84.9	115.7	224.2	402.2
EBITDA	18.7	24.8	35.4	59.4
Deprec. & amort.	(0.9)	(0.8)	(1.3)	(2.2)
EBIT	17.8	24.0	34.1	57.2
Net interest income/(expense)	(0.8)	(0.5)	(0.5)	(0.6)
Pre-tax profit	17.1	23.5	33.6	56.6
Tax	(5.7)	(7.8)	(11.2)	(18.8)
Minorities	(0.0)	(0.0)	(0.0)	(0.0)
Net profit	11.4	15.7	22.5	37.8
Net profit (adj.)	13.9	15.7	22.5	37.8

Balance Sheet

Year to 31 Mar (RMm)	2025	2026F	2027F	2028F
Fixed assets	12.3	15.7	24.6	41.7
Other LT assets	2.5	2.5	2.5	2.5
Cash/ST investment	52.2	68.8	80.1	104.7
Other current assets	30.0	27.5	34.3	39.6
Total assets	97.1	114.5	141.6	188.5
ST debt	2.6	1.5	1.5	1.5
Other current liabilities	15.8	19.2	22.5	28.6
LT debt	7.7	7.0	8.4	11.4
Other LT liabilities	2.9	2.9	2.9	2.9
Shareholders' equity	67.6	83.3	105.8	143.6
Minority interest	0.5	0.5	0.5	0.5
Total liabilities & equity	97.1	114.5	141.6	188.5

Cash Flow

Year to 31 Mar (RMm)	2025	2026F	2027F	2028F
Operating	7.2	22.5	20.2	40.8
Pre-tax profit	17.1	23.5	33.6	56.6
Tax	(4.7)	(7.8)	(11.2)	(18.8)
Deprec. & amort.	0.9	0.8	1.3	2.2
Associates	(0.0)	-	-	-
Working capital changes	(8.1)	6.0	(3.6)	0.8
Other operating cashflows	2.1	-	-	-
Investing	(3.9)	(4.2)	(10.2)	(19.3)
Capex (growth)	(2.8)	(4.2)	(10.2)	(19.3)
Proceeds from sale of assets	0.4	-	-	-
Others	(1.5)	-	-	-
Financing	38.4	(1.7)	1.3	3.0
Dividend payments	(5.0)	-	-	-
Issue of shares	40.6	-	-	-
Proceeds from borrowings	3.2	(1.7)	1.3	3.0
Others/interest paid	(0.3)	-	-	-
Net cash inflow (outflow)	41.7	16.5	11.4	24.6
Beginning cash & cash equivalent	9.0	50.7	67.2	78.6
Changes due to forex impact	-	-	-	-
Ending cash & cash equivalent	50.7	67.2	78.6	103.2

Key Metrics

Year to 31 Mar (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	22.1	21.4	15.8	14.8
Pre-tax margin	20.1	20.3	15.0	14.1
Net margin	16.4	13.6	10.0	9.4
ROA	14.3	13.7	15.9	20.1
ROE	20.6	18.8	21.2	26.3
Growth				
Turnover	8.8	36.3	93.8	79.4
EBITDA	36.7	32.4	42.8	67.7
Pre-tax profit	34.1	37.8	43.2	68.3
Net profit	13.0	37.7	43.2	68.3
Net profit (adj.)	38.5	12.8	43.2	68.3
EPS	38.5	12.8	43.2	68.3
Leverage				
Debt to total capital	0.1	0.1	0.1	0.1
Debt to equity	0.2	0.1	0.1	0.1
Net debt/(cash) to equity	(0.6)	(0.7)	(0.7)	(0.6)
Interest cover (x)	22.4	50.8	71.0	96.3

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